

To: All Dartmouth College Employees
From: Michael Wagner

We have been monitoring closely a recent development in the Internal Revenue Service's rulings related to the federal tax treatment of education assistance benefits provided by employers to employees. I wanted to make you aware of a change in the federal tax policy for grant-in-aid benefits that are provided to employees for graduate level Dartmouth courses.

The Dartmouth College Exempt and Non-exempt Staff Handbooks outline the specific provisions of the Grant-in-Aid for Dartmouth Courses program provided by the College, including the eligibility requirements. In addition to the other benefits and requirements that are part of this program, an employee may receive grant-in-aid for up to 100% of tuition for the completion of one Dartmouth course per term. A spouse or same-sex domestic partner may receive grant-in-aid for up to 50% of tuition for the completion of one Dartmouth course per term. For federal income tax purposes, grant-in-aid up to the amount of \$5,250 per calendar year is excludable from the employee's taxable income. Beginning in calendar year 2003, grant-in-aid in excess of \$5,250 for an employee and any grant-in-aid for a spouse or same sex domestic partner will be subject to federal income tax withholding and will be reported as taxable income on the employee's Form W-2. This treatment represents a change from our current practice whereby grant-in-aid has been excluded from employee taxable income if it qualified as a "working condition fringe benefit". Recent rulings by the IRS have clarified that tuition reductions or waivers for graduate level courses do not qualify for the working condition fringe benefit treatment. Therefore, the excludable amount of grant-in-aid for graduate courses is limited to \$5,250.

The Office of Human Resources will continue to administer the Grant-in-Aid program and will continue its practice of informing the Payroll Department when an individual has received grant-in-aid benefits of \$5,250 so that tax withholdings can be made from any benefits in excess of this amount.

If you have any questions about this issue, please do not hesitate to call Lieng Chin or me.

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